winter 2014

localinsights

An economic and labor market analysis of Southeast Utah

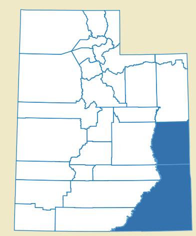
southeast

Regional Payroll Employment Growth Trails State Average

By Tyson Smith, Economist

We often take gradual economic improvement for granted. This has especially been the case following the Great Recession, which set Utah employment back considerably. The state lost nearly 100,000 payroll jobs from the end of 2008 to the beginning of 2010. But, while the recovery has seemed tepid at times, Utah's economy has steadily expanded faster than the U.S. for over three years.

Despite the positive momentum across the state, Castle Country and Southeast have scuffled to recover from the recession. Both regions felt the effects of the downturn in 2009, when the labor markets shed 202 and 283 jobs from the previous year, respectively. In Castle Country, 2010 turned out to be the best year for the labor market since the recovery began. The Southeast region turned the corner in 2010 and has had uneven job growth since, though the first half of 2014 has shown signs of greater expansion. Some of the issues facing these economies are cyclical; while other challenges—like those facing the mining industry—are longer-term structural shifts in the economy.



in this issue

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Carbon County

- Carbon County payroll job growth in the second quarter of 2014 fell to an annual rate of negative 2 percent, the fourth slowest year-over job growth in the state and 4.8 percentage points slower than the Utah average. In total, the region lost 178 jobs from second quarter 2013. Employment in the mining industry fell 2.6 percent, but has stabilized somewhat over the last 18 months.
- The county seasonally adjusted unemployment rate remained at 4.7 percent in September, 1.2 percentage points above the state average. County unemployment rates are down 1 percentage point from September 2013, and have consistently been at this level for seven months now.
- While employment in Carbon County waned over the last 12 months, average monthly wages increased 3 percent from second quarter 2013 to second quarter 2014. It appears that the jobs lost in several key industries—trade/transportation/utilities, mining, and professional/business services—were lower paying jobs, because these industries all experienced year-over increases to average monthly wages.
- Second-quarter taxable sales in Carbon County stayed relatively unchanged from 2013 to 2014, falling 0.3 percent during the year. Sales in general merchandise retail stores increased by approximately $1.1 million (6.6 percent) from second quarter 2013, the largest annual increase in the county. But, these gains were offset by year-over taxable sales declines in wholesale trade of durable goods.

Emery County

- Year-over payroll employment in Emery County grew 2.5 percent in the second quarter of 2014. Growth was driven by the goods-producing industries, which increased 9.7 percent (87 jobs). However, construction and mining employment went in separate directions. Employment in the construction industry jumped 54.7 percent—likely the result of a single project, and not a long-term change—while mining employment fell 23.6 percent.
- Like Carbon County, Emery County had a relatively high seasonally-adjusted unemployment rate of 4.8 percent in September. Job growth in 2014 has been uneven, and without consistent growth it is unlikely that the jobless rate will reach pre-recession lows in the near future.
- Average monthly wage growth in the second quarter of 2014 reflected employment growth; increasing 19.5 percent from 2013 (the largest increase in the state). Carbon County's wage growth was broad-based increasing in 9 of the 10 industry groups. However, a single project in the construction industry inflated average monthly wages dramatically.

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GRAND COUNTY JOINS ENERGY COALITION

The Grand County Council voted 6 to 1 in favor of joining a coalition of several other eastern counties that are attempting to increase funding and legislation that will strengthen the oil and gas industry infrastructure of the region. Despite the overwhelming vote in favor, the Seven County Infrastructure Coalition has been met with criticism from Grand County constituents. The region's economy relies heavily on tourism and recreation generated by the surrounding geography. Critics worry that aiding oil and gas exploration, extraction and transportation in the region could come at the expense of the natural resources that drive outdoor enthusiasts to the area.

— *Salt Lake Tribune*

THE 'MIGHTY 5' CAMPAIGN RECEIVES CRITICAL PRAISE

The creative agency that worked with the Utah Office of Tourism on The Mighty 5 national parks marketing campaign won top honors from the National Council of State Tourism Directors' Mercury Awards. The campaign drew attention to the natural beauty of the national parks in southeastern Utah and reached an estimated 5.74 million households. Nearly 375,000 trips to Utah between March and December 2013 are attributed (at least in part) to The Mighty 5 campaign.

— *Utah Pulse*

For more current events: http://utaheconomysoutheast.blogspot.com/

- Second quarter 2014 taxable sales in Emery increased for the fourth consecutive quarter. Quarterly taxable sales in the county were just under $38 million, compared to $32.7 million in second quarter 2013. The utilities and information industries—the largest and fourth largest industries by total sales—gained $2.4 million combined

Grand County

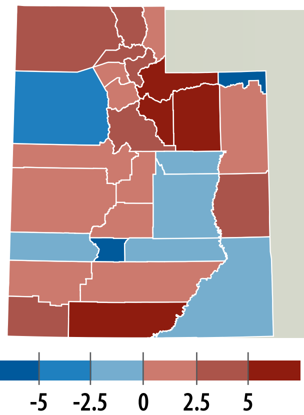
- Grand County has been the exception among the Castle Country and Southeast counties in terms of payroll employment growth. The 3.1 percent year-over job growth in first quarter 2014 was surpassed by job gains of 4.2 percent in the second quarter. On average the county added 225 jobs from second quarter 2013 to second quarter 2014. Leisure/hospitality and construction were the big contributors, adding 59 and 49 employees, respectively.
- The recent momentum in the county's labor market has had a dramatic effect on the seasonally adjusted unemployment rate, which has fallen from 7 percent in January 2014 to 5 percent in September. While 5 percent is still notably higher than the Utah average (3.5 percent), the two percentage point decline represents 106 fewer people unemployed.
- As the labor market picked up steam in the second quarter of 2014, so did average wages in the county. Year-over average monthly wages grew 2.3 percent, 0.6 percentage point faster than the Utah rate. The service-producing industries saw the largest increases, especially in leisure/hospitality which increased average monthly wages 6.3 percent.
- Second quarter 2014 taxable sales in Grand County increased by the largest proportion of any county in the state, jumping 22.5 percent from 2013. Accommodation and mining increased sales by the more than any other industry in the county, improving $6 million and $3.4 million, respectively, from second quarter 2013.

San Juan County

- After a promising finish to 2013, San Juan County's employment growth has dissipated. The county shed a quarterly average of 19 jobs from second quarter 2013 to second quarter 2014, or approximately 0.5 percent. While losing 19 jobs is not cause for panic, this was the first quarter of year-over job losses since early 2013. The goods-producing industries—down 10.6 percent—accounted for the majority of the job losses. Manufacturing employment fell 26.2 percent, which represents a quarterly average of 48 fewer jobs.
- As job growth stagnated in the county, the unemployment rate ticked up slightly. The rate settled at 8 percent in September (up from 7.9 percent in August), which is the second highest among Utah's 29 counties. San Juan County's unemployment rate is still markedly higher than both the state and national averages.
- Despite the increase in the supply of labor, average monthly wages rose slightly (up 0.2 percent) in the county. Growth in the service-providing industries, especially educational/health/social services and government, contributed rising wages. It also appears that some industries that reduced employment (construction and business/professional services) cut lower paying jobs, which skews average wages upward.
- Second quarter 2014 taxable sales in San Juan County fell 5.2 percent from second quarter 2013. The county experienced a drop in year-over taxable sales growth for the third time in the last four quarters.

The recent momentum in Grand County's labor market has had a dramatic effect on the seasonally adjusted unemployment rate, which has fallen from 7 percent in January 2014 to 5 percent in September.

Southeast Utah Economy at a glance



Year-to-Year Change in Nonfarm Jobs June 2014

1.9%	2.8%	-0.3%	-0.1%	4.1%	-0.7%
United States	State of Utah	Carbon County	Emery County	Grand County	San Juan County

Carbon County

Job Growth June 2014

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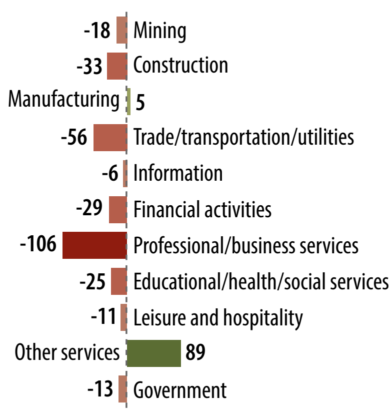

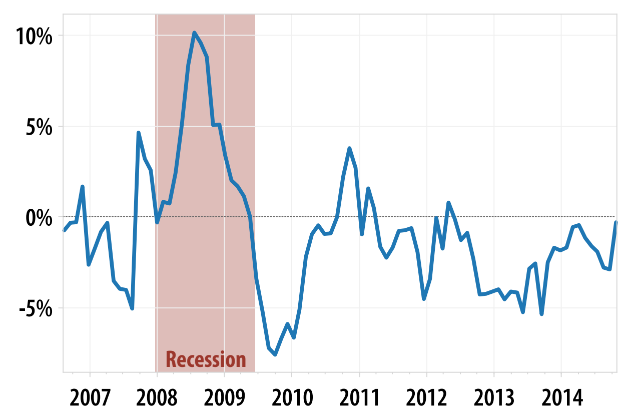

Emery County

Job Growth June 2014

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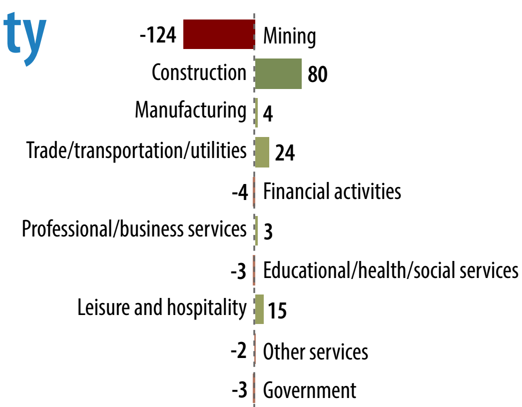
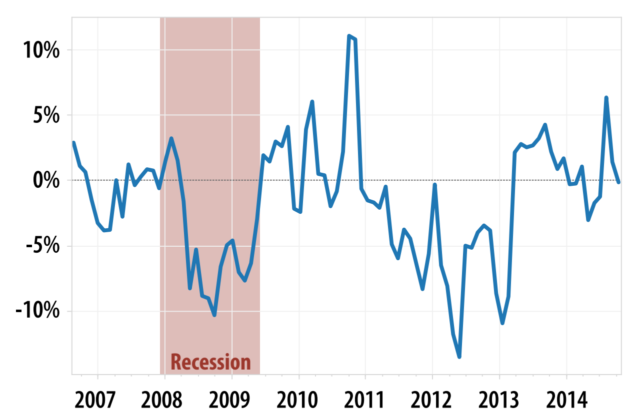
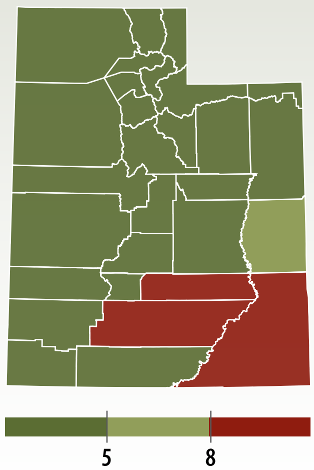




Sources: Utah Dept. of Workforce Services and Utah State Tax Commission

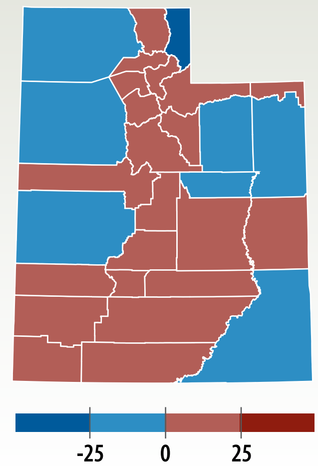
Seasonally Adjusted Unemployment Rate Sept. 2014

United States	5.9%
State of Utah	3.5%
Carbon	4.7%
Emery	4.8%
Grand	5.0%
San Juan	8.0%



Year-to-Year Change in Gross Taxable Sales 2nd QTR 2014

State of Utah	$ 4.2%
Carbon	$ -0.3%
Emery	$ 15.7%
Grand	$ 22.5%
San Juan	$ -5.2%



Grand County

Job Growth
June 2014

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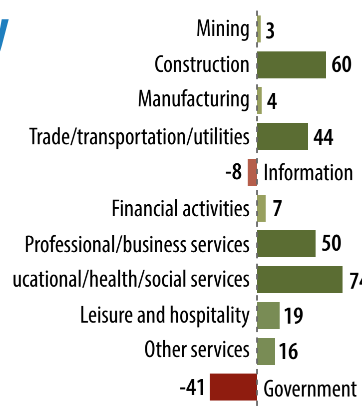

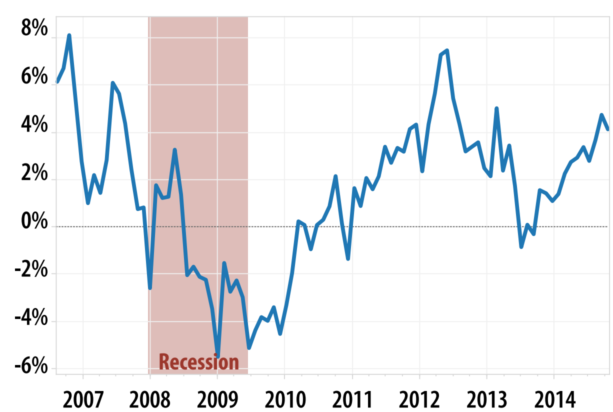

San Juan County

Job Growth
June 2014

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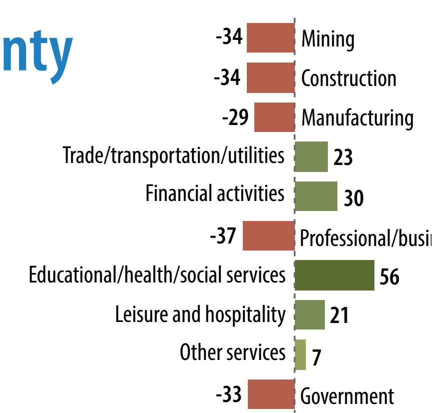
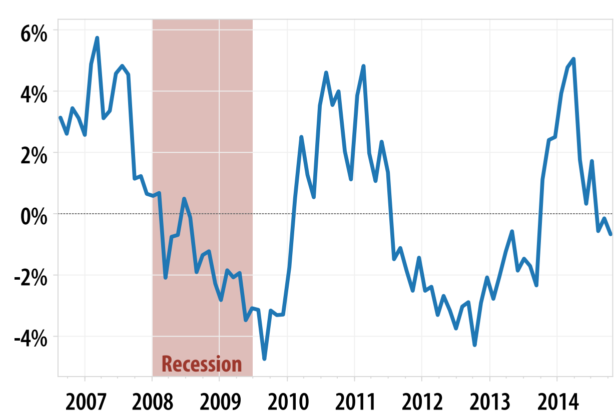




Regional New-Hire Trends During the Recovery

By Tyson Smith, Economist

One way economists use labor market data is to analyze business cycle trends. During periods of economic growth, aggregate consumer demand increases, and the resulting surge in consumer spending necessitates an increase in production at the firm level. Ultimately, organizations are compelled to invest in new capital to facilitate that increase in output. A manufacturing plant might buy a new machine to augment the capacity of their fabrication process, or a trucking company might purchase a new fleet of vehicles to expand the range of their delivery area. In any case, the first investment a firm generally makes in response to economic growth is to hire additional labor.

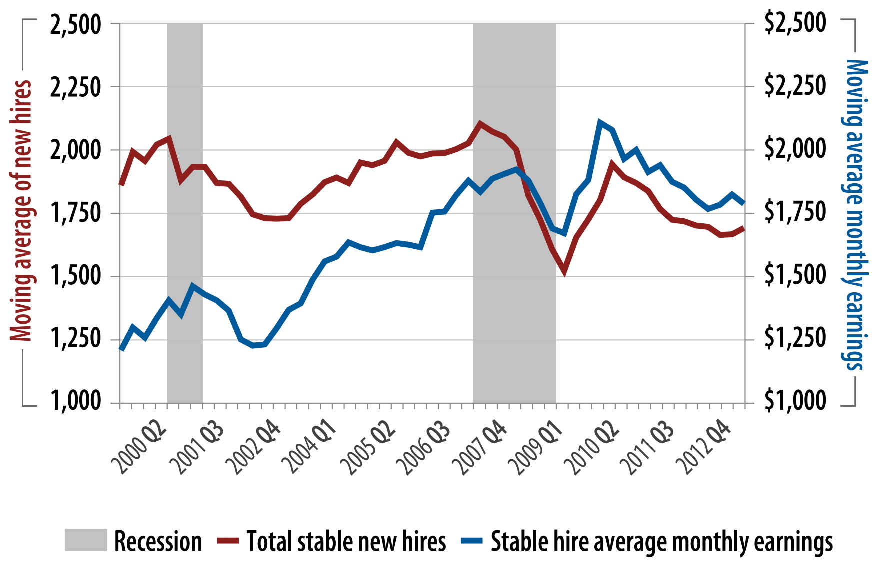
There are several reasons why hiring new employees is a desirable means of increasing output. One explanation is that firms rarely run at full capacity, especially at the beginning of an expansionary period. Thus it would be impractical to invest in new assets like equipment or buildings when existing capital is not being fully utilized. Conversely, in times of economic contraction, organizations are swift to suspend hiring practices until the business cycle changes course because eliminating new hires represents a prudent and organizationally painless action.

This issue of Local Insights will synthesize some interesting trends regarding stable new hires[1] per quarter in the Castle Country and Southeast regions.[2] Stable new hire data estimates the counts and earnings for workers who started a job that they had not held within the previous 12 months, and the job lasted at least a full quarter with a given employer.

Due to the complicated nature of data compilation, the most up-to-date stable new hire information available is through the second quarter of 2013.

When tracking new hire trends there are two variables worth considering: total new hires and new hire wages. Employment counts and wages tell a story about the business cycle and the economic health of a community. In the Southeast, new hire counts and

Figure 1: Southeast New Hire Counts and Earnings



Source: U. S. Bureau Local Employment Dynamics.

average monthly wages have moved in tandem since the turn of the century. These two indicators normally trend together, because wages are in part a function of labor supply and demand.

During the economic expansion from 2003 to 2007, Utah companies increased their demand for labor dramatically. The four-quarter average of total new hires increased from 95,249 in first quarter 2003 to 123,755 in second quarter 2007, an increase of 29.9 percent. The Southeast region grew at a slightly less robust 20.4 percent during this period with an additional 356 new hires per quarter. New hire wages responded to the increase in demand and grew 56.5 percent during the expansion. The monthly average new hire wage in the region was approximately $1,228 in first quarter 2003 and by third quarter 2008 it had jumped to nearly $1,923 per month.[3]

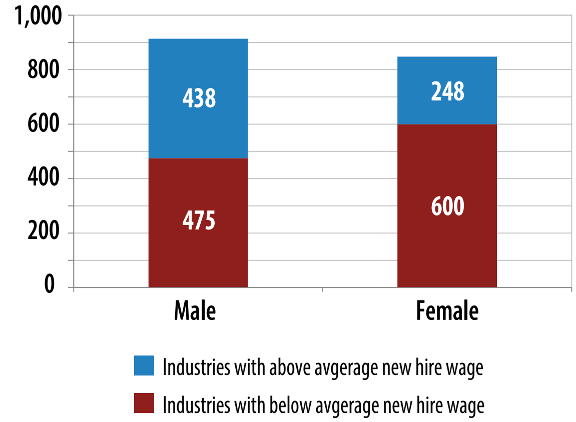
The recession had the opposite effect on hiring and new hire wages. Over approximately 18 months, the number of stable new hires fell 27.5 percent to a four-quarter average of 1,523.5 in third quarter 2009. At the same time, average monthly new hire wages declined 13.1 percent. Wage trends are generally more stable than employment trends, so both decreases highlight the Great Recession's severe impact on economic growth in the region.

The post-recession new hire data reflect the disappointing economic recovery and the uneven growth of the region in recent years. From third quarter 2009 to third quarter 2010 the quarterly average of total new hires increased by 420 workers, which suggested that the regional economy was back on track. However, by second quarter 2013 regional new hires had fallen by almost 13 percent. Total employment growth for Carbon County, the most populous county in the region, has largely been negative since 2011, and it is likely that the new hire data during the third and fourth quarter will show moderate demand for labor. Average monthly new hire wages in second quarter 2013 were also down about $250 from their post-recession high. Moreover, if the data were adjusted for inflation there would be very little new hire wage growth over the last five years.

While aggregate labor supply and labor demand affect wage rates throughout the economy, they are not the only determinants of total new hire wages. Total new hire wages in the region obscures the influence of growth in a specific industry on new hire incomes. Certain industries in the Southeast (such as mining) pay significantly higher wages than other industries. Furthermore, the business cycle or structural economic changes can impact some industries more than others. If growth at higher paying industries is gradual, while growth is brisk at lower paying industries then new hire wages should reflect lower average starting salaries.

The mining industry is a perfect example of the impact specific industry trends can have on total new hire wages. The most recent data show that new mining hires in the Southeast made approximately $5,112 per month, which is 186.1 percent higher than the region's average new hire wage. The wage difference between mining and the area average has always been substantial. However, during the most recent recover, the proportion of Southeast new hires in mining declined. In 2008, an average of 10.8 percent of all new hires were mining workers, but by 2013 that number fell to 4.6 percent (a difference of 143 fewer hires per quarter). New hire wages stagnated during this period not because aggregate labor demand lessened dramatically, but because an increasingly smaller proportion of new hires were in high paying industries like mining.

Figure 2: Average Quarterly New Hires in the Southeast Since the Recovery Began



Source: U.S. Census Bureau (Longitudinal Employer-Household Dynamics)

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[1] Estimated number of workers that started a job that lasted at least one full quarter with a given employer.

[2] Data for the two regions will be combined and referred to as a singular "Southeast" region.

[3] Wages not adjusted for inflation, and therefore wage growth estimates are slightly overstated.

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An Open Job is an Economic Opportunity

By Mark Knold, Supervising Economist

This issue of Local Insights features new hire profiles. We look at the Southeast Utah economy in relation to hiring volume, new hire wages, hire demographics and industry activities. The intent is to evaluate the opportunity trends in the region.

The question is: what do working people want from the economy? They want their skills utilized, they want job opportunities, and they want those two to manifest themselves in maximum monetary compensation. As people's skill sets are broad, varied and individualized, it is difficult to find data that quantifies how well an economy does or does not match skill sets. But economic theory suggests that free market interchange between employers and potential employees is always working in that direction.

Opportunities are easier to assess. Each new hire represents an individual taking advantage of a labor market opportunity. Evaluating a database that includes hire variables means one is working with a proxy for labor market opportunities.

Economies are not static; they ebb and flow. Growing and expanding economies create more job openings and opportunities; slowing and recessionary economies diminish labor market opportunities. These changing conditions bring corresponding fluctuations in the rewards associated with the opportunities. Initial hire compensation tends to increase in strong economies and lessen in weaker ones.

> *"I believe in the dignity of labor, whether with head or hand; that the world owes no man a living but that it owes every man an opportunity to make a living."*
>
> *— John D. Rockefeller*

Gauging opportunities means not just having the "job door" open, but also assessing how many people are trying to squeeze through that doorway. If a surplus of people (laborers) are trying to get in, the gatekeepers (employers) do not need to offer as much incentive to lure people through the door. Conversely, fewer interested laborers means that employers have to offer higher wages.

New jobs in the economy symbolize opportunities. That is why we have evaluated the hiring trends in Utah's Southeast region, in addition to looking at the current economic indicators of these eastern counties.